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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Aggregate growth statistics recently released by Commerce suggest that a slow recovery is gathering momentum. Real GNP grew after two quarters of decline, and U.S. labor productivity recorded large gains. The U.S. Department of Commerce statistics show a 1.8 percent rise (at an annual rate) in real GNP growth rate in the third quarter after three quarters of decline. Also, GNP major components showed increases over past quarters. Real personal consumption expenditures, the largest GNP component and a key to recovery, increased by $24.8 billion (3.8 percent) in the third quarter, compared with an increase of $16.8 billion (2.5 percent) in the second. Durable goods purchases increased by $9.0 billion (9.3 percent) after a decline of $1.5 billion (1.5 percent). Nondurable goods purchases increased by $6.5 billion (2.9 percent), compared with an increase of $5.1 billion (2.3 percent) in the second quarter. Nonresidential fixed investment rose by $8.0 billion (6.6 percent) compared with an increase of $1.7 billion (1.4 percent), and residential fixed investment rose by $7.3 billion (20.6 percent), compared with an increase of $0.6 billion (1.6 percent) in the second quarter.

The third quarter's GNP increase reflected gains in U.S. productivity, which exhibited the sharpest increase in 3 years. The U.S. Department of Labor reported that U.S. productivity increased in the third quarter of 1991 by 2.4 percent at an annual rate. Analysts consider productivity gains a sign of an emerging economic recovery when compared with the decline of 0.3 percent in the second quarter.

On the micro level, the manufacturing sector seems to continue advancing in spite of the 1.7 percent decline in manufacturing orders in September 1991. Most of the September decline in manufacturing orders was due to the decline in defense spending after the Persian Gulf War and also the decline in transportation equipment orders. Orders for defense goods declined by 47.8 percent in September after a 15.1 percent rise in August, and orders for transportation equipment fell by 14.5 percent after falling by 9.2 percent in August. Excluding defense, manufacturing orders rose by 0.4 percent in September after a 2.7 percent decline in August. Another strong indicator of the strengthening of the industrial sector was the increase in shipments of manufactured goods for the sixth straight month by 0.2 percent in September. Shipments of manufactured goods reached the highest level since November 1990. Excluding transportation equipment, factory shipments rose in September by 0.4 percent after a 0.7 percent fall in August 1991. Moreover, the rebuilding of inventories by manufacturers after an expanded period of drawing down on stocks signals that the manufacturing sector might still be leading the recovery. Inventories went up by 0.4 percent in September, the first increase since February 1991, after a decline of 0.2 percent in August. The real change in business inventory contributed $18.2 billion to the third quarter's GNP rise. Inventory buildup could propagate recovery in other sectors. In the housing sector, prospects of recovery improved as housing construction rose by 7.3 percent. Housing construction was spurred by the increase in apartment buildings and multifamily homes.

Faltering exports, reduced government spending, and declining new home sales seem to have weakened the thrust of the recovery, however. Real exports rose by only $0.2 billion in the third quarter after a rise of $7.1 billion in the second. Moreover, real government expenditures, a major prop for recovery during a recession, declined (instead of increasing) by $14.0 billion in the third quarter after increasing by $3.8 billion in the second. Federal spending decreased the most, by $13.4 billion. New home sales plunged 12.9 percent in October 1991. Moreover, surveys conducted by the Conference Board and the University of Michigan show that consumer confidence is still sagging. The negligible increase in disposable income (after tax), the decline in government spending, and the large increase in consumer and investor debt might account for much of the sagging consumer confidence and the inability of consumers and investors to expand spending strongly enough to perpetuate a strong recovery. Real disposable personal income, according to Commerce, rose by $4.5 billion in September 1991, the same increase as in August.

U.S. competitive position

Table 1 provides indicators of the U.S. competitive position relative to the Group of Seven (G-7) economies, the world's seven leading industrial democracies. The data indicate that the United States has gained price competitiveness in manufactures exports over the other six countries due to the relative decline in unit labor costs since 1988. The index of relative labor costs for the United States declined by 22 percent from the 1986-88 average. For Germany and Japan, the indexes of relative labor costs also declined but by less than the U.S. index.

Economic Growth

Real economic growth in the United States in the third quarter of 1991 increased by 2.4 percent at an annual rate. Real GNP declined in the second quarter of 1991 by 0.5 percent at an annual rate. In the first quarter of 1991, the annualized rate of real economic growth was a negative 2.8 percent. The rate of real growth was a negative 1.6 percent in the fourth quarter of 1990, and for all of 1990 the real growth rate was 1.0 percent.

Table 1
Competitive positions of the G-7

(1987=100)

	Average 1986-88	1989	1990	1991	1992
	Relative unit labor cost in manufacturing[1]				
United States	102	87	81	80	80
Canada	102	124	129	131	131
Japan	101	92	83	88	86
Germany	96	95	98	94	94
France	99	93	98	96	95
Italy	100	110	116	116	117
United Kingdom	103	102	107	111	111
	Relative export prices of manufactures[1]				
United States	103	94	90	87	86
Canada	100	109	107	109	109
Japan	100	101	96	100	99
Germany	98	96	99	99	99
France	99	97	99	98	97
Italy	99	103	107	106	106
United Kingdom	101	101	103	104	103

[1] In a common currency.

Source: *OECD Economic Outlook*, July 1991.

The annualized rate of real economic growth in the second quarter of 1991 was -2.4 percent in the United Kingdom, -2.4 percent in Germany, 3.2 percent in France, 4.9 percent in Canada, 2.0 percent in Japan, and 3.1 percent in Italy.

Industrial Production

Seasonally adjusted U.S. industrial production remained unchanged in October 1991 after edging up by one-tenth of a percentage point in September 1991. In October 1991, output of consumer goods increased slightly, but other sectors showed small declines. Total U.S. industrial production increased by 6.4 percent at a seasonally adjusted annual rate during the third quarter of 1991, after increasing at a 2.6 percent rate in the second quarter. The October 1991 index was 1.6 percent lower than it was in October 1990. Capacity utilization in manufacturing, mining, and utilities slipped by 0.2 percentage points in October 1991, to 79.6.

Other major industrial countries reported the following annual growth rates of industrial production: for the year ending September 1991, Germany reported a decrease of 0.3 percent, the United Kingdom reported a decrease of 1.7 percent, and Japan reported an increase of 0.7 percent. For the year ending August 1991, Canada reported a decline of 3.8 percent, Italy reported a decline of 7.0 percent, and France reported a decline of 1.0 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose 0.1 percent in October 1991. The consumer price index rose 2.9 percent during the 12 months ending October 1991.

During the 1-year period ending October 1991, consumer prices increased by 3.5 percent in Germany and 6.1 percent in Italy. During the year ending September 1991, consumer prices increased by 5.4 percent in Canada, 2.6 percent in France, 4.1 percent in the United Kingdom, and 2.7 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States increased to 6.8 percent in October 1991 from 6.7 percent in September 1991. In October 1991, Germany reported 6.3 percent unemployment and Canada 10.3 percent. In September 1991, the United Kingdom reported 8.7 percent, France 9.6 percent, Japan 2.2 percent, and Italy 10.0 percent unemployment. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Table 2 shows macroeconomic projections for the U.S. economy for October 1991 to September 1992, by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average forecasts point to a moderate rebound in nominal and real GNP growth rates starting the second quarter of 1992. There are many possible

Table 2
Projected quarterly percentage changes of selected U.S. economic indicators, October 1991-September 92

Quarter	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore-casts
	GNP current dollars				
October-December 1991	2.6	6.8	4.1	4.7	4.5
1992:					
January-March	4.3	7.0	5.7	5.5	5.6
April-June	4.0	6.5	6.5	5.5	5.6
July-September	5.4	6.4	6.1	6.2	6.0
	GNP Constant (1982) Dollars				
October-December 1991	0.7	3.4	1.5	2.8	2.1
1992:					
January-March	1.6	2.9	2.3	2.9	2.4
April-June	2.1	2.6	3.5	3.7	3.0
July-September	3.0	2.4	3.6	3.6	3.1
	GNP deflator index				
October-December 1991	2.0	3.2	2.6	1.8	2.4
1992:					
January-March	2.7	4.0	3.3	2.6	3.2
April-June	1.9	3.8	2.9	1.7	2.6
July-September	2.3	3.9	2.3	2.5	2.8
	Unemployment, average rate				
October-December 1991	6.9	6.9	6.8	6.8	6.9
1992:					
January-March	7.0	6.8	6.8	7.0	6.9
April-June	6.9	6.7	6.7	6.9	6.8
July-September	6.9	6.6	6.6	6.9	6.8

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: November 1991.

Source: Compiled from data provided by the Conference Board. Used with permission.

reasons for the moderation of the recovery in the remainder of 1991 and in the first three quarters of 1992: the general slowdown in the world economy, particularly in the industrialized countries; the sluggish rise in consumer spending, particularly consumer spending on durable goods, because of high consumer debt; consumers' sagging confidence; the plunge in new home sales; and the expected low level of investment because of reduced business expectations and the reduction in available credit caused by the Savings and Loan crisis. However, several dynamics appear to be working in favor of stronger growth in the second half of 1992. The decline in interest and inflation rates in most of 1991 may encourage a stronger rise in consumer and business spending in 1992. A surge in export growth is expected as a result of the anticipated improvement in industrial countries' economic conditions in 1992. Moreover, the buildup of the low level of business inventory now held by businesses could propel the recovery in other sectors. Also, the rise in housing starts is expected to create a rise in the general economic activity. The average of the forecasts predicts a slight decline in the unemployment rate in the second half of 1992. Inflation (measured by the GNP deflator) is expected to slow in the remainder of 1991, rise in the first quarter of 1992, dip slightly in the second, and rise slightly in the third.

U.S. TRADE DEVELOPMENTS

The U.S. merchandise trade deficit increased in September 1991 (by $260 million) due to the considerable increase in imports of consumer goods; industrial supplies; and foods, feeds, and beverages. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 3.

Table 3
U.S. merchandise trade, seasonally adjusted
(In billion dollars)

	Exports		Imports		Trade balance	
Item	*Sept. 1991*	*August 1991*	*Sept. 1991*	*August 1991*	*Sept. 1991*	*August 1991*
Current dollars—						
Including oil	35.4	34.4	42.2	40.9	-6.8	-6.5
Excluding oil	35.4	34.2	39.0	37.4	-3.6	-3.2
1987 dollars	33.4	32.4	39.7	38.7	-6.3	-6.3
Three-month-moving average	35.0	34.9	41.4	40.3	-6.4	-5.4
Advanced-technology products (not seasonally adjusted)	8.4	7.6	5.6	5.3	+2.9	+2.3

Source: *U.S. Department of Commerce News*, FT 900, Nov. 1991.

When oil is included, the seasonally adjusted U.S. merchandise trade deficit in current dollars increased by 4.6 percent in September 1991, to $6.8 billion from $6.5 billion in August 1991. The September 1991 deficit was 6.2 percent higher than the $6.4 billion average monthly deficit registered during the previous 12-month period and 25.3 percent lower than the $9.1 billion deficit registered in September 1990. When oil is excluded, the September 1991 merchandise trade deficit increased by $260 million over the previous month.

In September 1991, both exports and imports increased but imports increased faster. Including oil, seasonally adjusted exports in current dollars increased by $1.0 billion in September, to $35.4 billion, and imports increased by $1.3 billion, to $42.2 billion. Excluding oil, U.S. imports increased from August to September 1991 by $1.6 billion, to $39.0 billion. The U.S. oil import bill declined to $3.2 billion in September from $3.5 billion in August 1991.

In seasonally adjusted constant dollars, the trade deficit increased by around $100 million from August to September 1991. The trade surplus in advanced-technology products increased to $2.9 billion in September 1991 from $2.3 billion in August 1991. (Advanced-technology products as defined by the U.S. Department of Commerce include about 500 products from recognized high-technology fields—for example, biotechnology—out of a universe of some 22,000 commodity classification codes.)

Nominal export changes and trade balances in September 1991 for specified major exporting sectors are shown in table 4. Airplanes, inorganic chemicals, specialized industrial machinery, automatic data processing and office machinery, vehicle parts, power-generating machinery, airplane parts, and telecommunications recorded the largest export increases in September 1991 over August; most other sectors recorded export declines. Sectors that recorded the largest trade surpluses over the period January-September 1991 included airplanes, scientific instruments, airplane parts, specialized industrial machinery, organic chemicals, general industrial machinery, and power-generating machinery.

The U.S. agricultural trade surplus remained at $1.1 billion in September, unchanged from August 1991.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 5. The United States experienced increases in bilateral merchandise trade deficits in September 1991 with Japan, China, European Free Trade Association (EFTA), and the newly industrializing countries (NICs),[1] and slight deficit decreases with Canada, Germany and OPEC. U.S. trade surpluses with the EC, Western Europe, and the U.S.S.R. increased. On a cumulative year-to-date basis, the United States experienced substantial declines in its bilateral trade deficits from a year earlier with Germany, Canada, the NICs, and OPEC. The U.S. deficit with Japan increased slightly. U.S. trade surpluses with the EC and Western Europe increased markedly.

Lifting the Trade Embargo on Vietnam

The United States has decided to gradually lift its 16-year-old trade embargo against Vietnam; complete normalization of economic relations will take time. A number of U.S. industries feel the timeframe for the full reestablishment of economic ties needs to be shorter than the 18 to 24 months that is currently estimated under the State Department's announced

[1] NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

Table 4
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors, January 1990-August 1991

Sector	Exports		Change		Share of total January-September 1991	Trade balances January-September 1991
	January September 1991	September 1991	January-September 1991 over January-September 1990	September 1991 over August 1991		
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	19.1	2.1	4.9	10.9	6.1	-2.7
Airplanes	17.0	2.0	14.3	20.7	5.5	14.5
Airplane parts	7.6	0.9	3.8	8.2	2.4	4.38
Electrical machinery	22.4	2.5	5.7	0.8	7.2	-3.37
General industrial machinery	12.7	1.4	7.4	-3.5	4.1	1.89
Iron & steel mill products	3.3	0.4	41.9	18.8	1.0	-3.07
Inorganic chemicals	3.0	0.3	6.4	-14.3	1.0	0.68
Organic chemicals	8.4	0.8	11.1	- 3.5	2.7	2.25
Power-generating machinery	12.3	1.4	5.2	9.2	4.0	1.70
Scientific instruments	10.0	1.1	11.7	2.8	3.2	5.11
Specialized industrial machinery	12.5	1.5	8.4	16.8	4.0	4.13
Telecommunications	7.3	0.9	8.0	6.0	2.3	-9.25
Textile yarns, fabrics and articles	4.0	0.5	9.5	0	1.3	-1.05
Vehicle parts	10.5	1.3	-4.0	9.8	3.4	0.25
Other manufactured goods[1]	18.6	2.1	13.4	-1.9	6.0	-3.46
Manufactured exports not included above	72.7	7.9	10.9	5.9	23.3	-57.86
Total manufactures	241.4	27.2	8.9	3.3	77.3	-45.87
Agriculture	27.3	2.8	-6.0	-0.4	8.8	10.76
Other exports	43.4	4.6	4.6	-6.7	13.9	-11.45
Total	312.1	34.6	6.8	3.0	100.0	-46.56

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to totals shown.

Source: *U.S. Department of Commerce News (FT900)*, Nov. 1991.

"roadmap" plan. The U.S. administration has always maintained that it would not normalize relations with Hanoi until (a) there was a treaty to end the Cambodian civil war and (b) there was full cooperation by Vietnam on the Prisoner of War/Missing in Action (POW/MIA) issue. The first condition was met on October 24 when countries came together in Paris and signed the United Nations Cambodian peace plan, and the second has been partially met with the opening of a U.S. POW/MIA office in Hanoi in July 1991. Many in the business community feel that the embargo should be lifted immediately, both to recognize the progress Vietnam has made and to allow U.S. industries the opportunity to join other foreign investors. Others, both in business and government, feel a more gradual normalization process would be better in order to give the United States continued leverage regarding the POW/MIA issue. So far this second approach is the one being followed by the Bush administration. This approach is in keeping with the "roadmap" it announced in April, which said a gradual normalization process with Vietnam would begin when the Cambodian accord was signed. Thus, although opinions vary on the designated timeframe, U.S. businesses will at least have more access to the Vietnamese market than they have for the past 16 years, and will be able to begin preparations for full entry.

The Trade Embargo

The trade embargo against Vietnam was established in 1975 and has been continued by each consecutive U.S. administration under the authority of the 1917 "Trading with the Enemy Act" and the

Table 5
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1990-September 1991

(In billion dollars)

Area or country	*September 1991*	*August 1991*	*September 1990*	*January-September 1991*	*January-September 1990*
Japan	-4.20	-3.74	-3.02	-30.92	-29.52
Canada	-0.40	-0.72	-1.34	-4.00	-4.52
Germany	-0.30	-0.46	-0.59	-3.00	-7.14
EC	+1.40	+0.65	+1.24	+13.08	+4.84
Western Europe	+1.30	+0.71	+1.08	+12.78	+3.01
NICs[1]	-1.60	-1.50	-1.75	-9.13	-14.97
U.S.S.R	+0.23	+0.15	0	+1.77	+2.03
China	-1.46	-1.31	-1.07	-8.67	-7.44
OPEC	-1.04	-1.41	-2.58	-11.23	-17.64
European Free Trade Association (EFTA)	-0.20	-0.04	-0.26	-1.34	-2.46
Total trade balance	-6.85	-7.44	-9.16	-46.56	-72.89

Note.—The difference between trade balances shown in total exports table and those shown in the above (country/area) table represents exports of certain grains, oilseeds, and satellites that are not included in the country/area exports.

Source: *U.S. Department of Commerce News (FT-900)*, Nov. 1991.

more recent "International Emergency Economic Powers Act." The embargo denies Vietnam not only trade, but multilateral economic aid as well. Initially a number of U.S. trading partners supported and followed the embargo, but when Vietnam withdrew most of its troops from Cambodia in 1989 many countries decreased their restrictions on trade. The embargo was also weakened when Vietnam approved attractive new investment rules in 1987-88. As demonstrated as recently as the war in the Gulf, an embargo is not very effective without full international cooperation. The United States is left as the only major country that prohibits investments and trade with Vietnam. Feeling that the embargo no longer serves its purpose of economic isolation, U.S. businesses have begun to complain that the U.S. Government is preventing them from entering a potentially lucrative market.

Preliminary Efforts to Lift the Embargo

In April of this year Senator Frank Murkowski (R-Alaska) introduced legislation (S 808) designed to relax the U.S. trade embargo but not remove it completely. The bill said the U.S. Commerce Department should create a less restrictive trading category that would permit private-sector, nonstrategic trade with Vietnam. In other words, trade in high- and dual-use technologies would still be banned, as would weapons sales. The bill also stated, however, that before any relaxation of the embargo occurred, Vietnam would have to let in an internationally recognized humanitarian association (such as the Red Cross) to supplement the U.S. investigation of MIAs and POWs. Furthermore, the bill stipulated that Vietnam would have to reimburse the 192 U.S. citizens and businesses whose property had been expropriated. Claims for this reimbursement were filed by the U.S. Foreign Claims Settlement Commission in 1986 and total approximately $99 million plus interest. The plan was to have the U.S. Government liquidate the $150 million (plus interest) of frozen Vietnamese assets to meet the claims and then to return the rest to Vietnam. Senator Murkowski, who is ranking minority member of the Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs, said the bill was an effort to end what has become a lopsided embargo, with many other countries investing and profiting in Vietnam at the expense of U.S. industry.

This sentiment is echoed by the U.S. Chamber of Commerce, which also called for an end to the embargo on all nonstrategic trade and investment with Vietnam. The chamber cites statistics showing that Vietnam approved as many as 200 foreign investment projects in 1990, totaling nearly $1.5 billion in capital. Japan has rapidly become Vietnam's largest trading partner, with $800 million in two-way trade in 1990, but the largest investors are France ($293 million), Australia ($231 million), Hong Kong ($161 million), Canada ($158 million), Taiwan ($100 million), Japan ($85 million), and the Netherlands ($72 million). Based on these figures and the fact that U.S. businesses are not able to compete in this growing market, the chamber's international vice president William T. Archey said, "Our position is that an embargo is not the instrument to fulfill the moral obligation" to address the issue of POWs and MIAs. The vote to lift the embargo on nonstrategic trade and investment in Vietnam was unanimous among the 65 board members of the chamber.

The Administration Plan and U.S. Response

On April 9 the Bush administration announced a four-phase "roadmap" for normalization of political and economic relations with Vietnam but said it would not be initiated until there was a political settlement in Cambodia. The plan called for formal

discussions on improved relations between the United States and Vietnam once a treaty on Cambodia was signed. The second phase, contingent upon continued Vietnamese cooperation on the POW/MIA issue, would allow a partial lifting of the trade embargo. U.S. companies would be permitted to open offices in Vietnam and sign contracts. The third phase, scheduled for approximately 6 months after the initiation of the Cambodian peace plan, would be the actual lifting of the embargo and the easing of U.S. opposition to loans by the international financial institutions to Vietnam. There would also be the exchange of diplomatic missions during this phase of the plan. The final phase would come after the Cambodian elections, which are currently scheduled for early 1993. At this point the United States and Vietnam would establish formal diplomatic and economic relations, and the United States would give its full support to lending to Vietnam by international financial institutions.

This plan, announced in the spring, is still the designated approach to normalization now that the Cambodian peace accord has actually been signed. According to Secretary of State Baker, the initial bilateral discussions ("phase one") could begin within the next month. U.S. businesses, however, are still complaining that the timeframe laid out in this "roadmap" is too long, and that the Government is hindering private-sector business. They stress that the leverage initially intended by the embargo is no longer working since Vietnam can get investments and trade from other large countries. Furthermore, they say leverage for locating missing soldiers may actually be heightened through closer commercial ties, with which U.S. companies could use their influence from the inside.

The primary counter to these arguments comes from the American Legion and from some parts of the Government. The American Legion fears that normalized relations will remove all U.S. leverage and will hinder the search for information on the POWs and MIAs. Many members of Congress and the administration support this sentiment. With the new POW/MIA office beginning to make progress, they feel it would be best to keep some economic control over trade with this southeast Asian nation for the next few months.

Current Economic Activity in Vietnam and Implications of Normalized Economic Relations

Although Vietnam is not a rich country, it does hold considerable economic opportunity for foreign investors. The country's per capita income of under $200 per year makes it the poorest country in Asia, and its population of over 68 million faces inflation as high as 100 percent and an unemployment rate of 20 percent. These statistics do not paint the most ideal picture for foreign companies hoping to profit there, but with the market-oriented economic reforms of Vo Van Kiet (now Prime Minister) in the late 1980s, there is hope. In 1987 the Vietnamese Government approved new investment laws allowing for 100-percent foreign ownership, joint ventures, and other investment protection. More recently there has been talk of Vietnam's first duty-free zone, which will offer a number of investment incentives. The zone will be located near Ho Chi Minh City, and construction should begin later this year. These new economic incentives, plus the fact that Vietnam needs a lot of the products U.S. firms have to offer, all suggest that there is in fact a viable market of opportunity to be had there.

The U.S. industries that would benefit most from the removal of the trade embargo are telecommunications, offshore oil and gas development, and tourism. It is estimated that Vietnam has oil reserves of anywhere from 1.5 billion to 3 billion barrels, most of which is offshore. Shell, British Petroleum, and Petro-Canada are already over there, but Mobil remains restricted by the U.S. embargo. There are also contracts to be had for mining projects, road and bridge construction, telecommunication networks, and other infrastructure projects.

U.S. businesses are anxious to join other countries that have already opened industry and trade promotion offices in Vietnam. Japanese companies are said to have 25 local representative offices in Hanoi and approximately 14 in Ho Chi Minh City. The South Korean Trade Promotion Office has opened a branch in Ho Chi Minh City, while both Hyundai and Kia (automotive companies of Korea) plan to send representatives to Ho Chi Minh City and Hanoi. Hong Kong has established transportation cooperation by announcing that it would allow Cathay Pacific Airways to fly direct to Vietnam. Meanwhile, Sweden, Britain, Australia, and the Soviet Union all have oil and gas exploration or development agreements with Vietnam. Australia has also designated Vietnam as a target nation in its new "Asian Business Success Program." Taiwan's Vice Minister for Economics, P.K. Chiang, led a delegation of economic and trade officials to Vietnam in September, indicating that even the very anti-communist Taiwan may have new interests in the country. Finally, while the Japanese Government has not given loans or assistance to Hanoi, U.S. industry officials have noted that a few large Japanese trading firms have offered soft loans and attractive financial packages to the Vietnamese Government in an effort to encourage trade.

Vietnam is supplementing the above initiatives of foreign investors by actively pursuing trade opportunities with other countries. The country is seeking strengthened ties with a number of potential trading partners in east Asia and is continuing its efforts to join the Association of South East Asian Nations (ASEAN). Relations with China have recently improved, and a Sino-Vietnamese trade agreement was signed during a November summit between high-ranking delegations of the two countries. Thus while Vietnam has expressly requested that the United States lift the trade embargo, its economic interests are not focused solely on the West.

The United States will have some catching up to do, but there is speculation that a number of U.S. businesses have gotten a head start through illegal investments in the country. Estimates suggest that as much as $3 million in U.S. investments could have been funneled through Hong Kong or Taiwan. Other companies have sent exploratory missions over there but are waiting for the embargo to be lifted before signing any contracts. The general sentiment, however, is that an additional wait of 18 to 24 months (via the "roadmap" set up by the administration) will really put some companies behind. The newly created Indochina Business Council and the nonprofit U.S.-Vietnam Trade Council have been receiving an increasing number of calls from industries interested in looking at the Vietnamese market.

Although the economic side of this issue leans toward a more rapid extension of normalized trade relations, it is the political linkages that will cause delay. If Vietnam is highly cooperative on the important issues of POWs and MIAs, perhaps the more optimistic timeframe estimate of 18 months will hold true for the complete lifting of the trade embargo. Both Vietnam and a number of European countries feel that the United States could stand to move more quickly, but the intention is apparently to use the embargo for all the political leverage it may have left.

Korean Rice in the Pressure Cooker

As the prospective end of the Uruguay Round looms, the Government of Korea is redoubling its efforts to exclude rice from any final multilateral agreement that mandates trade liberalization. Rice imports are currently banned in Korea. The Korean Government maintains that rice should be excluded from liberalization for reasons of food security. Korea also argues that rice imports would create serious political and economic difficulties by severely harming the livelihood of Korea's 8 million rice farmers.

In late October, Korea dispatched a high-level team of negotiators to Washington, Brussels, and Geneva in an attempt to explain its position on rice to the United States, the European Community, and GATT Director-General Arthur Dunkel. A delegation from Korea's National Assembly also visited Dunkel in late October. In the context of difficult compromises by other agricultural trading nations, Dunkel reportedly told the group that an exception for Korea's rice market was difficult to recognize.

In recent weeks, U.S. officials have reiterated their calls for Korea to open its rice market to foreign suppliers. United States Trade Representative Carla A. Hills said recently that "if the Korean Government should continue to refuse to open the rice market, it will be a grave obstacle to the trade relations between the two countries." At the meeting of foreign and trade ministers from the Asia-Pacific region held in Seoul in mid-November, Hills restated U.S. opposition to exempting any products from Uruguay Round liberalization by stating that "if we start exempting certain products then we are on a steep downward slope." She concluded that "there is no country that can be engaged in our negotiations over trade and take a product off the table, because if one country takes one product off, another country will take another, and we have 108 [countries] at the table."

Both Korea and Japan have long been arguing for continuation of their bans on imported rice. Korea may become increasingly isolated on this insistence, however, as the Uruguay Round progresses. Japan has recently indicated that it may consider allowing limited quantities of foreign rice into the Japanese market.

Korea's calls for special treatment come at a time of declining rice production in Korea, and an increasingly heavy financial burden the rice policy imposes on the Government. In October, Korea's Ministry of Agriculture, Forestry, and Fisheries (MAFF) forecast that the 1991 rice harvest would drop to 5.3 million tons, down by nearly 4 percent from 1990. Rice production at this level would be Korea's smallest harvest since 1983. MAFF attributes part of the projected decline to a fall in the area of land used for rice cultivation. Between 1990 and 1991, for example, the cultivated area fell by nearly 3 percent, to 1.2 million hectares.

The land taken out of cultivation had largely been used for growing a highly productive, albeit lower quality, breed of rice known as "Tongil" or "Unification" rice. Tongil rice was developed in the 1970s to help Korea attain self-sufficiency in rice (the breed yields 30 percent more rice than the traditional higher quality varieties). In recent years, however, the Government of Korea has been actively encouraging Korean rice farmers to grow higher quality strains of rice, comparable to rice grown in California and Japan. Currently, Tongil rice purchased by the Government of Korea is added to a stockpile of over 2 million tons, which has been growing as the strain of rice decreases in popularity.

The economic cost of Korea's rice policy has taken its toll on Korean Government finances. The Government of Korea purchases rice from farmers above the market value at harvest time and releases the rice for sale into the market during the year at lower price levels. In 1990, the Government of Korea spent 748.1 billion won ($1.1 billion) purchasing rice in this manner. Korea recently announced that it would buy rice from farmers this year at prices 7 percent above the levels of 1990. With such an increase, the accumulated deficit for rice purchases alone is projected to exceed 5.3 trillion won ($7.3 billion).

Meanwhile, despite the ban on imported rice, an undetermined amount of U.S. rice is sold on the black market in Korea. The rice, shipped duty-free to Korea for sale at retail stores on U.S. military bases, is diverted into private channels and resold off base on the black market. Such diversion of rice and other products (e.g., scotch, cigarettes) intended for sale

only on military bases—and whose sale is restricted in Korea—has been a longstanding practice in Korea. In October 1990, the General Accounting Office (GAO) studied the activity and determined that "widespread" black marketing of duty-free goods intended for the military bases existed in Korea. GAO was unable to estimate the value of rice entering the black market in this manner but noted that if U.S. military personnel consumed all the rice intended for sale on military bases in Korea in 1988, per capita rice consumption would have been 170 pounds per person, compared with a consumption rate of 13.6 pounds in the United States.

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SPECIAL FOCUS

An Assessment of the Progress Toward Building Market Economies in Central and Eastern Europe

Following the historical turnabout of 1989, the five countries of Central and Eastern Europe (CEE)—Bulgaria, Czechoslovakia, Hungary, Poland, and Romania—embarked on an unfamiliar journey from economic management by the state to reliance on the market. All five countries have rejected nonmarket economic principles, but even those most advanced in the implementation of reforms still have a way to go before they can be considered market economies. This was one of the important conclusions of the Commission's recently completed study, *Central and Eastern Europe: Export Competitiveness of Major Manufacturing and Service Sectors* (investigation No. 332-308, October 1991). The current article elaborates on this conclusion and provides new evidence to support it.

The common starting point

The condemnation of the private ownership of capital and the spontaneous market forces arising from it represent the ideological foundations of the nonmarket economic system. In practice, the nonmarket system embraces virtually complete public ownership of capital goods and substitutes predetermined development goals and producer supply commitments for the guidance of price signals. Economic control by the state in the CEE countries traditionally assumed two main forms: (1) direct control, or detailed central planning, and (2) indirect central control, or administrative control without compulsory plans.[2]

Detailed central planning, the more orthodox of the two control mechanisms, was developed in the Soviet Union after 1924 and was adopted in the CEE area following World War II. Under this system, the CEE states, after consultation with Moscow, determined targets for the growth of national income and its composition for a 5-year period. These medium-term national targets became law and were broken down into short-term plans for each industry, enterprise, plant, shop, and worker. Exports to other non-market-economy countries were also built into national plans. Trade among the nonmarket economies in the former Soviet bloc became a gigantic scheme of bilateral commodity swaps under the aegis of the now abandoned Council for Mutual Economic Assistance (CMEA).[3] As early as the 1950s, however, the flaws of detailed central planning became apparent to an increasing number of economists throughout the CEE region, pitting reformers against doctrinaire Marxist authorities.[4]

Hungary was the first among the five CEE countries to abandon detailed central planning. In 1968, industrial enterprises became legally independent from the state, but the Government still retained a system of central administrative controls without compulsory plans. Poland embarked on a similar path as a result of reforms during 1981 and 1982. With little attention paid to enterprise independence and the beneficial effects of market-generated prices, Bulgaria and Czechoslovakia stagnated in a stage of transition from detailed central planning to indirect planning until 1989. Romania remained mired in a virtually intact, direct central planning mechanism until after the downfall of the Ceaucescu regime in late 1989.[5]

Although Hungary and Poland were ahead of the other CEE countries in reducing central control, the basic nonmarket economic arrangements remained intact in these two countries until 1989. The state's economic decisions were carried out to the letter. By retaining the right to shape credit and tax policies, sometimes tailor made for specific enterprises, ministries and other central agencies had an undiminished ability to withdraw resources from some enterprises to subsidize others and to use price controls to shape economic policy. Decisions over the largest, most significant investment projects remained in the hands of the state, and state-appointed enterprise managers were more often Government bureaucrats than entrepreneurs. This rigid administrative framework, combined with a toned-down but never abandoned Marxist ideology, ensured that recurring attempts to inject market forces into the region's economies failed to result in the creation of a substantial, bona fide private sector.[6]

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[2] See Bela Csikos-Nagy, *Socialist Economic Policy* (Budapest: Academic Publishers, 1973), pp. 99-122; and Paul Marer, "Economic Reform in Hungary: From Central Planning to Regulated Market," *East European Economies: Slow Growth in the 1980s*, Joint Economic Committee, Mar. 1986 (Washington: GPO, 1986), pp. 223-297.

[3] The CMEA was established in 1949 and terminated in 1991. Its membership was expanded to include Cuba, Mongolia, and Vietnam, in addition to the five CEE countries, East Germany, and the Soviet Union. For a description of the CMEA trade regime, see Paul Marer and John Montias, "CMEA Integration: Theory and Practice," *East European*

[3]—*Continued*

Economic Assessment, A Compendium of Papers, Joint Economic Committee, July 1981 (Washington: GPO, 1981), pp. 148-195. For descriptions of CMEA's difficulties during the last decade of its existence and the circumstances and consequences of its demise, see USITC, *International Economic Review*, June 1989, pp. 6-7, and Martin Schrenk, *The CMEA System of Trade and Payments: The Legacy and Aftermath of its Termination*, World Bank Working Paper, WPS 753, Aug. 1991.

[4] See J.F. Brown, *Eastern Europe and Communist Rule* and *Surge to Freedom* (Durham, NC: Duke University Press, 1991); Gale Stokes, ed., *From Stalinism to Pluralism: A Documentary History of Eastern Europe Since 1945*, (New York: Oxford University Press, 1991); Bartlomiej Kaminski, *The Collapse of State Socialism: The Case of Poland* (Princeton, NJ: Princeton University Press, 1991); and John W. Young, *Cold War Europe* (London: Hodder Stoughton, 1991), pp. 197-223.

[5] Wharton Econometric Forecasting Associates (WEFA), *Centrally Planned Economies Outlook*, Oct. 1988, pp. 84-86; The Economist Intelligence Unit (EIU), *Romania, Bulgaria, Albania, Country Report*, No. 4, 1989, p. 14.

[6] For a review of Hungary's economic reforms since 1968, see Anthony R. Boote and Janos Somogyi, *Economic Reform in Hungary Since 1968*, Occasional Paper No. 83 (Washington: IMF, July 1991), pp. 1-36; and Thomas

The stability of external demand ensured by the CMEA trade regime also helped preserve the nonmarket economic institutions in Hungary and Poland, although the pressure in these countries to reform the CMEA reduced the influence of hardline, orthodox Marxism throughout the entire former Soviet bloc.

In conclusion, historical experience has demonstrated that by leaving the state ownership of productive assets intact, central control of the CEE economies did not diminish significantly but only changed form. Although the post-World War II economic development of the five CEE countries differed in many ways, the predominance of state ownership and administrative control of resource allocation continued to characterize all of them even as recently as 1989, when the region's great political transformation began.

Measuring the progress of transition

As 1991 comes to an end, nonmarket economic principles have been solidly rejected throughout the CEE region, and all five countries are in the process of transition from nonmarket to market economic institutions.[7] The extent of progress may be gauged by the decline in the state's direct control of the economy and by the emergence of an institutional framework for indirect economic controls. The first of these two broad indicators, direct state control, may be considered the basic characteristic of a nonmarket economic system and the second one, indirect economic controls, the basis of a market economic system.[8]

Reduction in the state's direct control

Reduction in the state's direct control of the economy can be evaluated in terms of both the reduction in the state's active role in resource allocation and the expansion of the private sector. At present, the accomplishments of the CEE countries in the first realm significantly exceed those in the second.

In all five CEE countries, state agencies are now legally enjoined from interfering with the management of even state-owned industrial enterprises. National economic apparatuses have been pruned to the point where the state could not, even if it wanted to, return to the past practice of enforcing its operative managerial decisions throughout industry. Under the existing legal and institutional framework, the state could not return even to the milder version of central control, i.e., to administrative control without compulsory plans.

In all five CEE countries, industrial enterprises are now legally free to set prices in transactions among themselves, and most final product prices are legally free from state control. The areas and reasons for the application of remaining controls are relatively well known to both the domestic and foreign public. The banking sector has undergone a total reorganization, and the monopoly of the state in foreign trade has been broken in each country. The Governments of all five countries are seeking the increased participation of private foreign capital in their economies and have taken vital steps toward establishing current account convertibility.[9]

Results are encouraging, but not conclusive, when subsidies as a percentage of the Gross Domestic Product (GDP) are used as a proxy for measuring the state's resource-allocative role. Total subsidies (including agricultural price supports, payments to transportation companies, and those for housing and construction) may currently range between 4.5 and 6.5 percent of GDP in Czechoslovakia, Hungary, and Poland.[10] By comparison, total subsidies in the OECD countries averaged 1.6 percent of GDP during the 1980s.[11] The countries with the highest percentages making up this average were Ireland (7.2 percent), Norway (6.0 percent), Greece (5.0 percent), Sweden (4.8 percent), and Portugal (4.0 percent).

However, such comparison between the CEE and the OECD countries may be flawed for two major reasons. First, some analysts maintain that the

[6]—*Continued*
Apolte, "Monetary Policy in the Transition to Market Economy: The Case of Hungary," *Intereconomics*, May/June 1991, pp. 108-114.

[7] A market economy is established when the market signal mechanism functions, i.e., when the sellers (firms) and buyers (consumers) are allowed unimpeded interaction to determine the price at which a particular commodity is sold. To ensure that domestic prices converge toward international norms, the liberalization of foreign trade and investment and the establishment of convertibility for the national currencies are included as part of the market signal mechanism. These conditions together should ensure the improvement of efficiency in the use of resources and the creation of an economic structure that corresponds to the society's demand for goods and services. (See Paul A. Samuelson and William D. Nordhaus, *Economics*, 12th ed. (New York: McGraw Hill, 1989), pp. 42-47.) The progress to a market economy in itself creates the conditions for sustained growth without inflation. (For a comprehensive treatment of the relationship between economic stability and one particular reform measure, the introduction of current account convertibility, see Joshua E. Greene and Peter Isard, *Currency Convertibility and the Transformation of Centrally Planned Economies*, International Monetary Fund, Occasional Paper No. 81, June 1991, pp. 5-19.)

[8] For more on the distinction between the economy's direct and indirect control, see section on "Establishing the Framework for Indirect Economic Controls," later in this article.

[9] Current-account convertibility is defined as the freedom to exchange the national currency for convertible currencies for the purposes of importing goods and services, repatriating foreign investment income, and making unilateral transfer payments abroad.

[10] The word "subsidy" refers generically to grants and payments made for apparently domestic purposes. The use of the term in this context should not be interpreted to mean that such subsidies are within the meaning of the U.S. countervailing-duty law (19 U.S.C. 1303, 1671 et seq.).

[11] This estimate is based on data published by Robert Ford and Wim Suyker in *Industrial Subsidies in the OECD Economies*, Organization for Economic Cooperation and Development (OECD) Working Paper No. 74, Jan. 1990, pp. 48 and 49.

above-reported numbers for the CEE countries fail to account for a major form of subsidization practiced throughout the region. According to these analysts, state-owned commercial banks are forced to refinance a large proportion of the nonperforming loans of bankrupt state enterprises in all CEE countries. The resulting losses suffered by the banks may be partially covered by high-interest-rate loans extended to profitable businesses, other earnings from banking activities, and budget allocations that appear as operating costs rather than as payments and grants that should be counted as subsidies.[12] Second, since the state is still the dominant owner of industrial enterprises in the CEEs, relations between a particular state-owned firm and the state agency exercising ownership rights over it may involve an unknown measure of state support.

Reducing direct state control by legal and administrative means has proven easier than the expansion of the private sector through the divestiture of state-owned enterprises and the establishment of new enterprises. Public sector employment in industry as a percentage of total industrial employment is still about 85 percent in Hungary and Poland, about 96 percent in Czechoslovakia, and close to 100 percent in Bulgaria and Romania. These figures compare with public sector employment—including all government employment—of no more than 20 percent in the European OECD countries.[13] Nevertheless, momentum for the mass divestiture of state-owned assets is growing throughout the area.

Establishing the framework for indirect economic controls

Institutional arrangements limiting the free play of market forces vary significantly among market economies, but reliance on fiscal and monetary policies as the primary means to achieve national economic goals is a characteristic common to all of them. Monetary and fiscal policies are considered indirect controls because they do not force enterprises to take a particular course of action regarding the level and composition of production.[14] Rather, they are designed to create economywide incentives or disincentives, generally reflecting counter-cyclical government policy, to which producers may or may not adapt themselves in the way policymakers expect.[15]

Economists consider monetary policy more characteristic of the laissez-faire, noninterventionist ideal of a market economy than is fiscal policy. Monetary policy steers interest rates in some desired direction and determines economywide credit conditions. Through often highly discretionary taxation and spending programs, fiscal policy may have a clear industry-specific edge.[16]

Fiscal policy is also considered to be more coercive than monetary policy. Whereas changes in the price of money and in credit conditions do not convey any direct command to producers, fiscal policy carries a mandatory element of taxation even in the most liberal market economies. Fiscal policy is also considered less independent of the government in power than monetary policy is. Whereas monetary policy is often implemented by relatively independent central banks in the developed market economies, fiscal policy can be more easily manipulated by the governments in power to influence the electorate.

Consequently, the progress a CEE government has made in establishing the preconditions for conducting monetary policy is considered a more effective measure of its success in providing a framework of indirect economic controls. A major precondition for implementing monetary policies compatible with a market economy is the establishment of an extensive, competitive, predominantly private, and profit-based commercial banking system. The existence of such a commercial banking system allows the allocation of investment capital according to market criteria. In conjunction with this requirement, the country's central bank must be relatively independent of the government in power. The existence of an independent central bank allows macroeconomic policy goals (e.g., the targeting of the money supply, the average rate of interest charged by commercial banks, and the exchange rate of the national currency) to be pursued free from the political exigencies of the government in power.

All five CEE countries have made important strides toward establishing such a two-tier banking system, but none of them has fully succeeded in implementing this precondition. State ownership still predominates in commercial banking systems throughout the region, as measured by the over

[12] For more on the shortcomings of the commercial banking system in the CEE region, see section below.

[13] Iceland, Switzerland, and Turkey were not included in the survey. See *OECD Economic Surveys, Portugal, 1988/1989*, OECD, Paris, p. 45.

[14] For a basic description of fiscal and monetary policies and their complementary features and contrasts, see Samuelson and Nordhaus, *Economics*, 12th ed., pp. 345-366. For more details on contemporary fiscal policies, see William H. Butler, *Principles of Budgetary and Financial Policy* (Cambridge: MIT Press, 1990). For more details on contemporary monetary policies, see B.M. Friedman and F.H. Hans, eds., *Handbook of Monetary Economics* (Amsterdam: North Holland, 1990).

[15] Ibid. Market economies also use direct economic controls. These are of three basic kinds: regulations affecting specific industries (e.g., the rates and operating conditions of utilities, tariffs, import quotas, etc.), antitrust regulations, and public enterprises. For details, see Clair Wilcox, *Public Policies Toward Business* (Homewood, IL: Richard D. Irwin, Inc., 1981), pp. 17-43.

[16] Although Government spending and taxation are often designed to affect a particular industry in certain ways, they are rarely designed to affect particular private enterprises directly. Thus, even if a market economy's fiscal policy does incorporate direct controls, they are less specific than the direct controls of a nonmarket economy.

whelming weight of state-owned banks in holding old loans and extending new ones. Even the new, completely private banks do not compete with one-another or with other financial institutions (e.g., the savings banks) for deposits.

In all five countries, many unprofitable, state-owned enterprises awaiting liquidation or divestiture have loans at predominantly state-owned commercial banks. As a result, these banks are at least partially dependent on fiscal allocations to carry the nonperforming loans. Moreover, the central banks in all five countries are heavily involved in financing the national budget and, therefore, cannot be considered independent from the state.[17]

Summary Assessment

Despite the reduction in the state's direct role as an allocator of resources, its continued dominance as an owner of industrial assets clearly shows that the CEE economies are in a state of transition. Although the state has lost its ability to exert across-the-board administrative control in industry and commerce, market forces—which according to historical experience exert control only when private ownership is dominant in an economy—are not yet fully developed. Resources in the CEE countries are currently being allocated according to neither nonmarket nor market economic principles. This conclusion is further corroborated by the less-than-full development of the institutions required to conduct economic policy as in a market economy.

Differences in the critical and relatively easily measured indicator of private sector expansion show that Hungary and Poland are now somewhat ahead of Czechoslovakia in the transition process. However, all three of these countries are ahead of Bulgaria and Romania, where radical reforms did not gather momentum until mid-1991. Thus, progress toward a market economy differs among the five CEE countries in part because of the differences in the speed at which political will gathered the necessary strength to carry out radical reforms. Differences in the extent of transition may also have arisen from the general economic conditions in each country at the beginning of the new epoch. For example, near-catastrophic economic conditions in Bulgaria and Romania during 1989 and 1990 might have been a factor in delaying the implementation of decentralization measures and the inflow of foreign capital—a vital catalyst of the reform process.

Outlook

The transition process in the five countries should not be expected to be identical in speed, sequence, or final outcome. Moreover, in the foreseeable future, the emerging characteristics of the CEE market societies should not be expected to be identical to those of any currently existing market economies. Whereas most industrial democracies have approached some current level of state ownership in their economies through a slow evolution from almost exclusive private ownership, the CEE countries are proceeding very rapidly, by historical standards, from the opposite direction. The CEEs started out from virtually exclusive state ownership of industrial assets in 1990 and intend to reduce it to the point where market mechanisms begin to function on a significant scale in just a few years. Since this process is unprecedented, no one knows at what level of private ownership the market system will begin to function or how far these countries will go in allowing the private sector to expand at the expense of the state.

The increasing contacts with the industrial democracies and the gradual integration of these countries into the world economic system are already serving to transform the CEE economies and reduce their state ownership of industrial assets. Continued aid to the CEE countries, growing private investment in the region by firms from the OECD member countries, and expanding trade between the OECD and CEE countries illustrate the increase in these contacts.

Economic development aid and aid commitments, excluding balance-of-payments and export guarantees, amounted to an estimated $21 billion from July 1989 through December 1991, and are forecast to increase by another $30 billion during 1992-95. With significant U.S. participation and support, the World Bank is expected to lend $10 billion to the CEE countries during 1992-95, and the European Bank for Reconstruction and Development is expected to lend $5.5 billion. A cooperation agreement between the OECD and Czechoslovakia, Hungary, and Poland, signed in June 1991, specifically provides for helping the three countries to formulate and implement economic reform policies.

Foreign investment registrations, representing mainly joint ventures involving firms from the OECD countries, increased from 2,309 as of March 1, 1990, to 15,154 by April 1, 1991, and are currently increasing by an estimated 250 per month. Capital commitments, calculated by converting national currencies into U.S. dollars at current official exchange rates, increased from $871 million to $2.8 billion over the same period. According to the German Economic Institute, the world's biggest multinational firms intend to invest at least an additional $3 billion in the CEE countries and the former German Democratic Republic during the next 4 years. U.S. private investment as a share of total Western private investment in the region is projected to remain steady at its currently estimated 11 percent.[18]

Trade between the OECD and the CEE areas (exports plus imports) amounted to an estimated $54.4 billion in 1991 and is projected to increase in current

[17] See also Joint Publications and Research Service (JPRS), *Eastern Europe*, Oct. 15, 1991, p. 20.

[18] Interview with official at the United Nations Economic Commission for Europe, Nov. 7, 1991.

value by 50 percent, to $81.6 billion in 1995.[19] Commercial relations between the United States and the CEE countries continue to improve and expand. U.S. trade with these countries, which amounted to an estimated $2.3 billion in 1991, is projected to increase to at least $4.4 billion in 1995. New bilateral agreements between the European Community and Czechoslovakia, Hungary, and Poland, respectively, will gradually establish free trade between the EC and each of the three central European states over the next decade. Even the idea of a free-trade agreement between the United States and the three countries has emerged.[20]

Whereas growing contacts with the West tend to foster the reduction of state ownership in the CEE economies, some political factions in all of these countries tend to counteract this process. Supporters of a system that synthesizes market forces and planning are against the expansion of the private sector to anywhere near the levels that exist in the market economies. Since this approach represents a powerful political rallying point throughout the region, it is almost certain to exert a strong effect on the nature of the market society currently developing in the CEE countries.[21]

Analysts are likely to designate a CEE country a market economy when, in addition to the reduced role of the state as an allocator of resources, at least the majority of industrial enterprises is free from state ownership and when the conditions to conduct monetary policy as in a market economy are firmly established. At that point, the market's signal mechanism must begin exerting its beneficial effects on a large scale.[22]

[19] Based on estimates by WEFA and interview with analysts at the OECD, Nov. 6, 1991.

[20] Mr. Charles Vanik, former U.S. Representative, currently a lawyer with Squire, Sanders, and Dempsey, interview by USITC staff, Nov. 1, 1991.

[21] For example, the Ambassador of Czechoslovakia to the United States has remarked that the supporters of a system that synthesizes market forces and planning might have been in the majority among the experts who worked on the country's economic reform program during 1989-90. However, their views were so disparate that the radical market reformers, although a comparative minority, prevailed because they had a consistent program. (Remarks by the Ambassador at a seminar on the course of economic reform in the Czech and Slovak Federated Republic, IMF Visitor's Center, Oct. 9, 1991.)

[22] Paul Marer, "The Transition to a Market Economy in Central and Eastern Europe," *The OECD Observer*, Apr./May 1991, p. 8.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1988-August 1991

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1988	1989	1990	1990 IV	1991 I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
United States	5.4	2.6	1.0	-7.2	-9.6	2.4	-6.5	-9.7	-7.7	5.9	10.7	10.6	8.1	2.2
Japan	9.5	6.2	4.5	6.9	-0.5	-2.7	17.1	-6.3	-22.3	5.8	27.4	-29.3	42.7	-67.1
Canada	4.4	2.3	0.3	4.8	-1.2	-6.2	1.1	-6.3	-7.3	-7.4	-5.4	-1.1	-2.2	-4.3
Germany	3.2	5.3	5.9	6.7	0.6	(1)	(1)	-10.3	(1)	53.7	-24.5	(1)	(1)	(1)
United Kingdom	3.7	0.3	-0.8	-6.8	-1.1	-4.1	-7.7	21.2	1.1	-25.6	-4.5	48.8	1.1	(1)
France	4.1	3.6	1.1	-10.2	1.0	4.5	2.8	-11.0	-27.8	50.7	-2.1	0	(1)	(1)
Italy	6.9	3.9	-0.7	-8.1	3.9	-3.5	6.7	-13.4	2.1	-22.1	17.0	24.1	-24.3	(1)

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Consumer prices, by selected countries and by specified periods, January 1988-September 1991

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1988	1989	1990 1990	1991 IV	I	II	III	May	Jun.	Jul.	Aug.	Sept.
United States	4.1	4.8	5.4	7.0	3.5	2.1	(1)	3.6	2.7	2.7	2.7	(1)
Japan	0.7	2.3	3.1	6.0	4.3	1.2	2.0	1.6	1.3	3.5	2.3	-2.0
Canada	4.0	5.0	4.8	6.9	11.3	2.8	(1)	1.6	4.7	0.2	4.1	(1)
Germany	1.3	2.8	2.7	4.2	1.4	3.4	7.6	4.1	8.6	13.1	3.5	2.3
United Kingdom	4.9	7.8	9.5	6.1	4.2	4.1	(1)	4.0	6.0	5.9	0.6	(1)
France	2.7	3.5	3.4	4.4	2.3	2.2	(1)	3.1	3.4	3.2	3.1	(1)
Italy	5.0	6.6	6.1	6.9	6.9	6.2	5.6	6.5	7.0	5.2	4.7	5.0

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, October 18, 1991

Unemployment rates, (total labor force basis)[1] by selected countries and by specified periods, January 1988-September 1991

Country	1988	1989	1990	1990 IV	1991 I	II	III	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	5.4	5.2	5.4	5.8	6.4	6.7	6.8	6.5	6.8	6.9	6.7	6.7	6.7
Japan	2.5	2.3	2.1	2.1	2.1	2.1	(1)	2.1	2.0	2.1	2.2	2.2	(1)
Canada	7.7	7.5	8.1	9.1	10.1	10.3	10.4	10.1	10.2	10.5	10.4	10.5	10.2
Germany	6.2	5.6	5.2	4.8	4.5	4.5	4.6	4.4	4.5	4.5	4.6	4.6	4.6
United Kingdom	8.2	6.4	6.4	6.7	8.1	9.1	10.0	8.9	9.2	9.4	9.7	9.9	10.1
France	10.1	9.9	9.2	9.2	9.2	9.6	(1)	9.4	9.6	9.7	9.8	10.0	(1)
Italy[2]	7.8	7.7	6.9	6.8	6.8	6.9	6.6	6.9	(3)	(3)	6.7	(3)	(3)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.

[2] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11-12 percent in 1986-1990.

[3] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

[4] Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Deapartment of Labor, October 1991.

Money-market interest rates,[1] by selected countries and by specified periods, January 1988-October 1991

(Percentage, annual rates)

				1990	1991										
Country	*1988*	*1989*	*1990*	*IV*	*I*	*II*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*	*Jul.*	*Aug.*	*Sept.*	*Oct.*
United States	7.8	9.3	8.3	8.1	6.8	6.1	6.5	6.5	6.1	6.0	6.1	5.9	5.6	5.5	5.3
Japan	4.4	5.3	6.9	7.5	7.7	7.6	7.7	7.7	7.6	7.6	7.6	([2])	([2])	([2])	([2])
Canada	9.6	12.2	13.0	12.3	10.5	9.2	10.4	9.9	9.6	9.1	8.8	8.8	8.7	8.6	([2])
Germany	4.3	7.0	8.5	8.9	9.1	9.0	9.0	9.1	9.1	8.9	9.0	9.1	9.2	9.2	([2])
United Kingdom	8.9	13.3	14.8	13.8	13.1	11.5	13.1	12.4	11.8	11.4	11.2	11.1	10.9	10.2	([2])
France	7.9	9.2	10.3	10.1	9.7	9.3	9.6	9.4	9.2	9.2	9.6	9.6	9.5	9.4	([2])
Italy	11.0	12.7	12.7	13.0	12.7	11.7	12.3	12.4	11.9	11.5	11.5	11.9	11.9	11.7	([2])

[1] 90-day certificate of deposit.
[2] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.
Source: *Federal Reserve Statistical Release, November 12, 1991 Economic and Energy Indicators*, Central Intelligence Agency, October 18, 1991.

Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1988-October 1991

(Percentage change from previous period)

				1990	1991									
Item	*1988*	*1989*	*1990*	*IV*	*I*	*II*	*III*	*Apr.*	*May*	*Jun.*	*Jul.*	*Aug.*	*Sept.*	*Oct.*
Unadjusted:														
Index[1]	88.0	91.3	86.5	81.7	82.8	87.7	87.6	86.8	87.3	89.0	88.9	87.8	86.1	85.3
Percentage change	-6.5	6.4	-5.3	-4.2	1.3	5.6		-.7	.6	1.9	-.1	-1.2	-1.9	-.9
Adjusted:														
Index[1]	87.4	91.8	88.1	84.1	85.2	89.6	88.4	89.1	89.3	90.5	90.2	88.8	86.8	85.9
Percentage change	-4.8	6.8	-4.0	-3.1	1.3	4.9		4.5	.2	.1.6	-.3	-1.6	-2.3	-1.0

[1] 1980-82 average=100.

Note.—The foreign-currency value of the U.S.dollar is a trade-weighted average in terms of the currencies of 15 other major nations.The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.
Source: Morgan Guaranty Trust Co. of New York, November 1991.

Trade balances, by selected countries and by specified periods, January 1988-September 1991

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1988	1989	1990	1990 IV	1991 I	1991 II	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States[1]	-118.5	-109.1	-100.5	-104.4	-68.8	-52.2	-88.5	-66.0	-48.8	-54.0	-57.4	-45.5	-71.4	-78.4	-81.5
Japan	94.9	77.4	63.2	66.0	87.6	96.8	81.6	78.0	96.0	92.4	92.4	104.4	99.6	115.2	([3])
Canada	8.2	5.9	9.3	9.6	9.2	10.4	2.4	7.2	10.8	9.6	12.0	8.4	1.2	([3])	([3])
Germany[2]	72.9	72.0	60.4	32.8	13.6	-0.8	-3.6	25.2	10.8	13.2	-3.6	-7.2	0	16.8	([3])
United Kingdom	-37.5	-39.3	-32.0	-23.2	-21.6	-14.4	-30.0	-16.8	-18.0	-18.0	-19.2	-7.2	-12.0	-15.6	([3])
France	-5.5	-7.0	-9.4	-13.6	-10.4	-5.2	-13.2	-8.4	-9.6	-3.6	-4.8	-7.2	-8.4	-7.2	([3])
Italy	-11.1	-13.0	-11.8	-17.2	-1.6	-17.2	-20.4	-6.0	13.2	13.2	-20.4	-10.8	-26.4	-10.8	([3])

[1] 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

[2] Imports, c.i.f value, adjusted.

[3] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, September 20, 1991 and *Advance Report on U.S. Merchandise Trade*, U.S.Department of Commerce, November 19, 1991.

U.S. trade balance,[1] by major commodity categories,and by specified periods, January 1988-September 1991

(In billions of dollars)

Country	1988	1989	1990	1990 IV	1991 I	1991 II	1991 III	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
Commodity categories:														
Agriculture	13.9	17.9	16.3	4.2	4.4	2.8	3.3	1.6	1.0	1.0	.8	1.1	1.1	1.1
Petroleum and selected product-(unadjusted) ...	-38.1	-44.7	-54.6	-16.2	-10.4	-10.0	-10.9	-3.1	-3.3	-3.3	-3.4	-3.3	-3.9	-3.7
Manufactured goods	-146.1	-103.2	-90.1	-24.3	-14.7	-10.5	-20.9	-3.2	-3.6	-3.3	-3.6	-7.6	-7.0	-6.3
Selected countries:														
Western Europe ..	-12.5	-1.3	4.0	.6	5.7	5.1	1.9	3.2	2.1	1.3	1.7	-.01	.7	1.3
Canada[2]	-9.7	-9.6	-7.5	-2.8	-1.4	-1.0	-1.5	-.5	-.2	-.3	-.4	-.4	-.7	-.4
Japan	-51.7	-49.0	-41.0	-11.7	-10.3	-8.9	-11.7	-3.6	-3.3	-2.4	-3.2	-3.8	-3.7	-4.2
OPEC (unadjusted) ...	-8.9	-17.3	-24.3	-7.1	-4.3	-3.3	-3.5	-1.0	-1.0	-1.3	-1.0	-1.1	-1.4	-1.0
Unit value of U.S. imports of petroleum and selected products-(unadjusted)[3]	$18.12	$16.80	$20.34	$28.20	$19.57	$16.44	$16.65	$17.15	$16.40	$16.55	$16.39	$16.08	$16.79	$17.09

[1] Exports, f.a.s. value, unadjusted.1986-88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.

[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

[3] Beginning with 1988, figures were adjusted to reflect change in U.S .Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: Advance Report on U.S. Merchandise Trade, U.S. Department of Commerce, November 19, 1991.

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